

Agenda Item: II.A.

DATE: November 20, 2008

SUBJECT: Proposed Revision to Capital Policies

ACTION RECOMMENDED: Approval

Attached is a proposed revision to existing THEC Policy F4.0 *Capital Outlay and Maintenance Funding Recommendations*. The proposed revisions include several substantive changes and minor wording changes. The revisions add language to the policy that address the proposed THEC Space Planning Guidelines, amendments to the capital outlay priorities, and the purging of the Disclosed Project Listing. THEC staff gathered input on these proposed revisions from UT and TBR staff.

Section Title: Financial Policies

Policy Title: Capital Outlay and Capital Maintenance Funding Recommendations

Policy Number: F4.0

4.0.10 **Introduction.** Each year, pursuant to T.C.A. 49-7-202, the Tennessee Higher Education Commission staff will transmit to both governing boards capital outlay and capital maintenance funding request guidelines, which include Department of Finance and Administration requirements. In accordance with the guidelines, each governing board will submit their requested capital outlay and capital maintenance projects in numerical priority beginning with the number 1 and listing subsequent projects in progressive numeral order. The project information included for each request must address the proposed source or sources of funding. THEC staff will review the requests and make a recommendation to the Commission regarding the governing boards' capital outlay and maintenance requests. The Commission's actions then will be transmitted to the Department of Finance and Administration for review and consideration in the annual appropriation request.

All appropriation recommendations for capital outlay and capital maintenance projects will be distributed between the two governing boards in a fair and equitable manner. Projects submitted by the two governing boards must utilize the THEC Space Planning Guidelines. Each system should also seek to partner and cooperate with other federal, state or local government entities on capital projects when it will lead to efficiencies in operations in both entities.

4.0.20 **State Funded Capital Outlay Projects.** This category includes all new construction and renovation projects that utilize state funding in whole or in part. The overall goal of the capital outlay program is to provide physical facilities to enable each institution to provide a quality educational atmosphere, to fulfill their role and mission.

The Commission staff will:

1) utilize the THEC Space Planning Guidelines to assist in evaluating the project as it relates to campus space issues;

2) use the following priorities in the order presented to establish a unified capital outlay recommendation for capital projects.

~~Priority 1 - The first priority is to address essential projects that are of an emergency nature to avoid immediate danger to the life and property of students and staff. Projects at this priority level also include recovery from the aftermath of extensive damages to one or more buildings. These projects will be recommended before all other projects.~~

Priority 1 - This priority is to address projects that are consistent with the requirements of legal or court-ordered mandates.

Priority 2 - This priority is to address renovation projects that directly support the teaching function.

Priority 3 - This priority is to address the construction of new space that directly supports the teaching function.

Priority 4 - This priority is to address the renovation of buildings that are obsolete due to age or condition.

4.0.20A Priority Criteria. THEC staff will utilize the following criteria in priority order to establish a unified capital outlay recommendation for capital projects related to Priorities 2-4 above:

1. Projects that previously received partial funding or equipment not previously funded but required to complete a capital project.
2. Renovations of existing space to address deteriorated physical conditions or functional deficiencies.
3. New construction of facilities that directly support the teaching function.
4. Other projects that do not directly support the teaching function.

4.0.20B Priority Order. The priority order that each governing board assigns to its recommended projects will be maintained unless the Commission determines that a critical need would not be addressed by doing so.

4.0.21 **Amendments to State Funded Capital Outlay Projects**

4.0.21A Project Substitution. On an exception basis involving unusual circumstances, each governing board may request that THEC consider a substitution for new capital outlay priorities from the

time they submit their recommendations until a minimum of two weeks prior to the end of the calendar year. THEC will consider any recommendations made and if approved will recommend the project to the Governor. The Governor will then have time to consider the revised request in his budget. Each new project or projects being substituted into the priorities may not cost more than the project or projects being replaced. Exceptions may be considered after the deadline if significant external funding for a project is received from gifts, grants, or other non-state sources.

4.0.21B Emergency Projects. Projects of an emergency nature should be immediately transmitted to THEC when necessary to avoid immediate danger to persons or property when absolutely essential and indispensable to campus operations. A project in this category will be expedited and recommended by THEC for consideration by the State Building Commission at its next regularly scheduled meeting.

4.0.21C The Executive Director of THEC may approve an amendment to the capital outlay listing on behalf of the Commission for projects that fall into either the project substitution and/or emergency projects categories. In this case THEC staff will promptly notify the THEC and governing boards, the Commissioner of Finance and Administration, the Chairs of the House and the Senate Finance Committees, the Legislative Budget Office, and members and staff of the State Building Commission of the recommended change to the capital outlay list and the effect that the project will produce in the institution's Educational and General square footage total.

4.0.30 **Standard Process for Disclosure of Non State Funded Capital Projects**

4.0.30A As part of the annual appropriation request process, each governing board shall transmit to the THEC staff a list of capital projects to be considered for funding through the Tennessee State School Bond Authority or sources other than state appropriations.

4.0.30B Due to the length of time that is involved in the budget process the two governing boards should include in their request the projects that they anticipate presenting to the State Building Commission in the upcoming two fiscal years.

4.0.30C THEC staff will review the requests and make a recommendation to the Commission.

4.0.30D The Commission's actions will be transmitted to the Department of Finance and Administration for review and disclosure in the annual budget document.

- 4.0.30E The disclosed projects listing submitted by each system must include the following information, consistent with capital outlay and maintenance projects: Project Name, Project Description, Funding Source; Estimated Project Cost; and the amount of square feet that will be added to the institution's current Educational and General square footage total.
- ~~4.0.30F A project that is listed on an approved Disclosed Projects listing and has not received SBC approval within two fiscal years will be purged from the disclosed list during the appropriations request cycle. The governing board may again disclose this project in future budget cycles.~~
- 4.0.30F A disclosed project that is approved by the legislature for a particular fiscal year may remain on the list and eligible to receive approval from the SBC until the end of the following fiscal year before it will be purged from the disclosed list by THEC during the following appropriations request cycle. The governing board may again disclose this project in future budget cycles.
- 4.0.31 **Amendments to Disclosed Projects**
- 4.0.31A Amendments to the Disclosed Projects listing shall be transmitted to THEC staff by each governing board by March 31st of each year for consideration by the Commission at the spring quarterly meeting.
1. In April of each year THEC staff will transmit to the Department of Finance and Administration the Commission's action on amendments to the Disclosed Projects listing for review and inclusion in the Appropriations Bill.
- 4.0.31B No further amendments will be made to the Disclosed Projects listing unless the project is:
1. of a true emergency nature to avoid immediate danger to persons or property; or unforeseen maintenance projects absolutely essential and indispensable to campus operations. A project in this category will be expedited and recommended by THEC for consideration by the State Building Commission at its next regularly scheduled meeting.
2. a special opportunity project. An example of projects in this category includes the receipt of a federal grant or private donation that requires the immediate construction, renovation, or demolition of space. In addition, the requirements of the grant or donation are such that the project cannot wait for consideration in the next budget cycle. Once THEC makes a recommendation for approval, a minimum of 30 days will transpire before the project may be formally submitted to the SBC for action.

- 4.0.31C A request to amend the Disclosed Projects listing shall be submitted by the president or chancellor of the governing board to THEC staff for review and approval prior to any request for action by the State Building Commission. The request shall include a letter explaining the need for the project, the amount and source of funding, and providing appropriate documentation to support the request.
- 4.0.31D The Executive Director of THEC may approve an amendment to the disclosed project listing on behalf of the Commission for projects that fall into either the emergency and/or special opportunity categories. In this case THEC staff will promptly notify the THEC and governing boards, the Commissioner of Finance and Administration, the Chairs of the House and the Senate Finance Committees, the Legislative Budget Office, and members and staff of the State Building Commission of the recommended change to the project disclosure list and the effect that the project will produce in the institution's Educational and General square footage total.
- ~~4.0.31E A project that is listed on an approved Disclosed Projects listing and has not received SBC approval within two fiscal years will be purged from the disclosed list during the appropriations request cycle. The governing board may again disclose this project in future budget cycles.~~
- 4.0.40 **Capital Maintenance Projects** - Each governing boards' list of requested capital maintenance projects must be submitted to the THEC staff in priority order by project which reflects their capital maintenance needs. THEC staff will make a recommendation to the Commission for each governing boards' capital maintenance request based upon the governing boards' priorities. The Commission's actions will be transmitted to the Department of Finance and Administration for review and consideration in the annual appropriation request.
- 4.0.50 The Executive Director is authorized to make appropriate adjustments to the capital outlay and capital maintenance recommendations as necessary on behalf of the Commission.
- 4.0.60 Emergency Projects. Projects of an emergency nature should be immediately transmitted to THEC when necessary to avoid immediate danger to persons or property when absolutely essential and indispensable to campus operations. A project in this category will be expedited and recommended by THEC for consideration by the State Building Commission at its next regularly scheduled meeting.

Approved: April 22, 1988

Revised: January 27, 1989
Revised: July 26, 1996
Revised: July 25, 1997
Amended: April 18, 2002 (Projects Disclosure List)
Revised: April 17, 2003
Amended: November 17, 2005
Amended: November 20, 2008